

**COUNCIL OF SAN BENITO COUNTY
GOVERNMENTS**

**Management Report
For the Year Ended June 30, 2009**

Mgt. Ltr.
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COUNCIL OF SAN BENITO COUNTY GOVERNMENTS

Management Report
For the Year Ended June 30, 2009

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GRACE & ASSOCIATES
Certified Public Accountants and Consultants

To the Honorable Members of the
Board of Directors of the Council of San Benito County Governments
Hollister, California

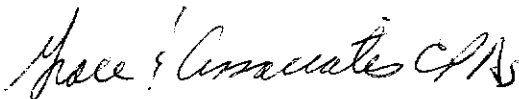
In planning and performing our audit of the basic financial statements of the Council of San Benito County Governments (Council) for the fiscal year ended June 30, 2009, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined above.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters. We previously reported on the Council's internal control in our report dated December 2, 2009 on the financial statements of the Council of San Benito County Governments.

This report is intended for the use of management, the Board of Directors, and officials of the federal and state grantor agencies and should not be used by anyone other than these specified parties.

We thank the Council's staff for its cooperation during our audit.



December 2, 2009
Hollister, California

COUNCIL OF SAN BENITO COUNTY GOVERNMENTS

SCHEDULE OF AUDIT FINDINGS

June 30, 2009

**CURRENT YEAR AND
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS**

CURRENT YEAR:

Status of prior year finding below:

Not implemented

PRIOR YEAR:

GENERAL LEDGER AND BUDGET RECONCILIATION

Condition

The Council employs departmental trust accounts to record activity that should be recorded in the general ledger in appropriate accounts for the respective activity (not in trust accounts). The general ledger records transactions in departmental trust accounts that are not budgeted for in the annual budget. The annual budget document should be reconciled with the published financial statements annually.

Effect of Condition

The annual budget does not include the trust accounts activity that should be included in the budget because the Board of Directors has the authority to expend the funds in the departmental trust accounts.

Recommendation

We recommend that the Council change the budgeting process to include the "departmental trust" activity in the budget. Furthermore, we recommend that the chart of accounts be modified to properly record the activity in the "departmental trust" accounts in the general ledger and the annual budget.

Management Response

The Council concurs with the finding and is planning to change the accounting treatment for the "departmental trust" accounts in the general ledger and in the annual budget.